

**NOTES TO
GENERAL PURPOSE
FINANCIAL STATEMENTS**

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

1. Summary of Significant Accounting Policies

The general purpose financial statements of the City of Manchester (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units.

A. Reporting Entity

The City was incorporated in June of 1846 and operates as a municipal corporation governed by an elected mayor and a fourteen (14) member aldermanic board. The City's general purpose financial statements include all entities for which the City is financially accountable, and other organizations of the City for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board ("GASB") Statement 14 has set forth criteria to be considered in determining financial accountability. This criteria includes whether the City, as the primary government, has appointed a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

The City has four component units – Manchester School District, Manchester Development Corporation, Manchester Transit Authority and the City of Manchester Employees' Contributory Retirement System. Using the criteria of GASB Statement 14, management determined that the Manchester Development Corporation should be blended into the primary government, the Manchester School District, the Manchester Transit Authority and the City of Manchester Employees' Contributory Retirement System should be discretely presented. The nature and relationship of the City's component units are disclosed in the following sections.

Blended Component Units

Manchester Development Corporation ("MDC") - The MDC was created by the Board of Mayor and Aldermen ("BMA") as a public corporation for the purpose of developing economic opportunities for the City. The MDC Board of Directors is comprised of twelve (12) members, all of whom shall be nominated by the Mayor and confirmed by the Board of Aldermen of the City. The MDC is a blended component unit reported in the Special Revenue Funds. Separate financial statements are not available.

Discretely Presented Component Units

Manchester School District ("District" or "MSD") - The MSD is responsible for elementary and secondary education within the government's jurisdiction. The members of the school board are elected by the voters. However, the District is fiscally dependent upon the government as the government's BMA approves the District's budget, levies taxes (if necessary) and must approve any debt issuances. Other independent auditors audited the MSD, a June 30 year-end, and their report, dated November 20, 2001, has been issued under separate cover. The District is presented as a governmental fund type.

Manchester Transit Authority ("MTA") - The MTA was created by the BMA to provide a public transportation system for the citizens of the City. A five-member board appointed by the BMA oversees the MTA. Other independent auditors audited the MTA, a June 30 year-end, and their report, dated September 19, 2001, has been issued under separate cover. The MTA is presented as a proprietary fund type.

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1. Summary of Significant Accounting Policies (continued)

City of Manchester Employees' Contributory Retirement System (the "New System") - The New System was created by the BMA for the purpose of administering the assets of the employees' contributory retirement system. The New System's Board of Trustees consists of seven members, as follows: the City Finance Officer, the Mayor, one person appointed by the Board of Aldermen, two citizens of the City - one appointed by the Mayor, one elected by the New System members and two New System members also elected by the New System members. Other independent auditors audited the New System, a December 31 year end, for the year ended December 31, 2000, and their report, dated April 9, 2001, has been issued under separate cover. The New System is presented as a pension trust fund.

Complete financial statements of the individual component units may be obtained directly from their administrative offices.

Manchester School District 196 Bridge Street Manchester NH 03104	Manchester Transit Authority 110 Elm Street Manchester NH 03101-2799	City of Manchester Employees' Contributory Retirement System 1838 Elm Street Manchester NH 03104
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B. Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable or available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate "fund types". The City has the following fund types and account groups:

Governmental Fund Types

Governmental funds are used to account for the City's expendable financial resources and related liabilities (except those accounted for in certain trust funds). The measurement focus is based upon determination of changes in financial position and the flow of current financial resources. Following are the City's governmental fund types:

General Fund - The General Fund is the general operating fund of the City and operates under a legal budget. It is used to account for all financial resources not accounted for in other prescribed funds and account groups.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted or designated for specific functions or activities (not including expendable trusts or major capital projects).

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of capital assets other than those financed by proprietary funds.

City of Manchester, New Hampshire
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1. Summary of Significant Accounting Policies (continued)

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those found in the private sector. The measurement focus of proprietary funds is upon determination of net income, financial position, and cash flow (economic resources measurement focus). The Enterprise Funds are included in this category.

Enterprise Funds - The City uses enterprise funds to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is for the costs of providing goods or services to the general public on a continuing basis be recovered or financed primarily through user charges.

Regulatory Authorities

Water Works, the City's water department uses guidelines for water utility accounting set forth by the New Hampshire Public Utilities Commission. Certain operations of Water Works are subject to regulation with respect to accounting and rates established by the New Hampshire Public Utilities Commission.

The City has implemented Statement No. 20 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." This Statement provides guidance on the applicability of accounting pronouncements from other standards setting organizations. The City's proprietary funds must apply all GASB pronouncements and the following pronouncements issued before November 30, 1989 unless they contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures. In addition, the City has elected to apply those applicable pronouncements issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Fiduciary Fund Types

Fiduciary fund types account for assets held by the City as a trustee or agent. Fiduciary funds include agency funds, expendable trust funds, and nonexpendable trust funds.

Agency Fund – The Agency fund is used to account for assets held by the City in a trustee capacity or as an agent for individuals or other governmental units and/or other funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operation.

Expendable Trust Funds - The measurement focus of the expendable trust funds is the same as the governmental funds. Expendable trust funds account for assets where both the principal and interest may be spent.

Nonexpendable Trust and Pension Trust Funds - The measurement focus is similar to proprietary funds. Nonexpendable trust funds account for assets of which the principal may not be spent.

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1. Summary of Significant Accounting Policies (continued)

Account Groups

In addition to the three broad types of governmental funds, the City also maintains two account groups as described below:

General Fixed Assets - Property and equipment acquired by the City in the performance of its operations, other than operations accounted for in the Proprietary Fund Type and the Trust Funds, are reflected in the General Fixed Assets Account Group.

General Long-Term Debt - The General Long-Term Debt account group is used to account for general government unmatured, long-term, general obligation bonds payable, compensated absences, insurance claims, supplemental retirement benefits, capital appreciation bonds, net pension obligations, and landfill closure and post-closure costs. Payments of principal and interest on long-term debt are recorded in the general fund and the MSD.

C. Basis of Accounting

Governmental funds, the expendable trust fund and the agency fund are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available to pay liabilities of the current period). “Measurable” means that the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Revenues susceptible to accrual are property taxes, licenses, interest, and charges for services. The government considers property taxes as available if they are collected within 60 days after year-end. Likewise, the City records a general fund liability for tax abatements and refunds issued within 60 days after year-end. Fines, permits, and parking meter revenues are not susceptible to accrual, because they are generally not measurable until received.

Expenditures are generally recognized under the modified accrual basis of accounting when the liability is incurred. Exceptions to this general policy are: (1) principal and interest on general long-term debt which is recognized when paid; and (2) compensated absences, net pension obligation claims and landfill closure costs which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Certain federal grants, made on the basis of entitlement periods, are recorded as receivables and revenues when the entitlement occurs. Other federal grants made on a reimbursement basis are recorded as receivables and revenues when the related expenditures are incurred.

The City reports deferred revenues on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

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1. Summary of Significant Accounting Policies (continued)

Proprietary fund types, pension trust funds and nonexpendable trust funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred (flow of economic resources measurement focus).

Pension Trust Funds: Employee contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Governmental Funds: The net pension obligation, the cumulative difference between annual pension cost and the City's contributions to the plan since 1986, is calculated on an actuarial basis consistent with the requirements of GASB Statement No. 27 and is recognized in the General Long-Term Debt Account Group. Expenditures are recognized when they are paid or are expected to be paid with current available resources.

Funding Policy: The City makes contributions at the discretion of management.

D. Cash and Cash Equivalents

New Hampshire Revised Statutes Annotated ("RSA") Chapter 48:16 ("RSA 48:16"), as amended, establishes the policy the City must adhere to when investing City funds. With approval of the BMA, the Finance Officer, acting as Treasurer, may invest in obligations of the United States government, in savings bank deposits of banks incorporated under the laws of the State of New Hampshire ("the State"), in participation units of the New Hampshire Public Deposit Investment Pool ("NH-PDIP"), in certificates of deposit of banks incorporated under the laws of the State, or in national banks located in New Hampshire or the Commonwealth of Massachusetts. RSA 48:16 does not allow the City to enter into reverse repurchase agreements.

Investments are stated at fair value based on quoted market rates.

The City's cash and cash equivalents represent short-term investments with an initial maturity of three months or less. The MDC's investments consist primarily of United States Treasury Notes and certificates of deposits. MDC may invest in marketable securities.

E. Restricted Cash and Cash Equivalents

Restricted cash includes retainage amounts due to contractors upon completion of various construction projects where contractual third party restrictions exist. Also included in the restricted cash are deposits made by surrounding towns based on intermunicipal agreements with the Environmental Protection Division (wastewater facility), as well as restricted amounts resulting from bond covenants for the 1992 State Guaranteed Airport Revenue Bonds, the 1998 General Airport Revenue Bonds and the 2000 General Airport Revenue Bonds.

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1. Summary of Significant Accounting Policies (continued)

F. Restricted Investments

The proceeds of the 1992 State Guaranteed Airport Revenue Bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by a Loan and Trust Agreement. The “bond fund” is used to segregate resources accumulated for debt service payments on the given maturity dates. The “bond reserve account” is used to report resources set aside to make up potential future deficiencies in the bond fund. The “operation and maintenance reserve account” is established for purposes of reporting revenues. The “renewal and replacement account” is established to set aside resources to meet unanticipated or emergency repairs. The “coverage account” is established by the Airline Agreement for purposes of reserving additional protection to meet all bond coverage requirements. A “rebate fund” also would be used to report any excess of interest earned on nonpurpose investments (as defined in Section 148 of the Internal Revenue Code of 1986, as amended).

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001 are recorded as prepaid items.

H. Inventories

Inventory for the Highway Department is recorded at cost on a first-in, first-out basis. The remaining cost of inventories in governmental fund types is recorded as expenditures when purchased (“Purchase Method”). The Environmental Protection Division (“EPD”) Fund, Water Works Fund and Aggregation Fund are the only enterprises that record inventories. Inventories in these enterprise funds are stated at the lower of cost (First-in, First-out method) or market.

I. Property and Equipment

General Fixed Assets - Property and equipment used in governmental fund type operations are recorded at historical cost if purchased or constructed. Assets received through donation are recorded at estimated fair value as of the date of donation. Assets are capitalized and considered property and equipment if they have a value greater than \$5,000 and a useful life greater than or equal to three (3) years. Assets in the General Fixed Assets account group are not depreciated. All school buildings are property of the City.

Infrastructure assets are fixed assets that are immovable and are only of value to the government. Infrastructure assets consist of roads and bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Infrastructure assets are not capitalized and therefore are excluded from the General Fixed Assets account group.

Construction in Progress - Construction projects financed by general obligation bonds, excluding those supported by proprietary fund revenues, are recorded as expenditures in the Capital Project Fund. Incomplete capital projects are recorded in the General Fixed Assets account group as construction-in-progress. Incomplete proprietary projects are recorded as construction-in-progress (a component of property and equipment) in the respective fund.

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1. Summary of Significant Accounting Policies (continued)

Proprietary Fund Fixed Assets - Property and equipment in the enterprise funds are recorded at cost, or if donated, at estimated fair value on the date received. The funds capitalize assets with values greater than \$5,000 (\$10,000 for Aviation) and a useful life greater than or equal to three (3) years.

Assets acquired by the enterprise funds are subject to depreciation. Each enterprise fund is responsible for the accounting and recording of depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	15 to 60 years
Improvements	5 to 30 years
Equipment	5 to 15 years
Vehicles	3 to 10 years
Interceptors (EPD)	50 years

J. Capitalized Interest

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest incurred from the date of the borrowing until completion of the project, with interest earned on invested proceeds over the same period. Net interest cost capitalized in the Environmental Protection Division Fund and Aviation Fund amounted to approximately \$1,410,000 for the year ended June 30, 2001.

K. Compensated Absences

The liability for compensated absences, which represents the City's commitment to fund such costs from future operations, is reported in the General Long-term Debt account group. The liability reported as compensated absences includes vested and accumulated vacation leave and sick leave benefits that are not expected to be liquidated with current fiscal year available financial resources. Vested or accumulated vacation and sick leave of the enterprise funds are recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick-pay benefits. However, a liability is recognized for that portion of accumulating sick-leave benefits that it is estimated will be taken as terminal leave prior to retirement.

L. Insurance

The City is self-insured for health care claims, workers' compensation and general liability. Workers' compensation, general liability claims, and health insurance premiums are recorded in the General Fund and other applicable funds as expenditures. Health care claims in excess of premiums are recorded as expenditures in the General Fund. At year end all claims settled but unpaid are recorded as liabilities in the General Fund and estimated liabilities for claims incurred but not reported and claims not settled are reflected in the General Long-term Debt account group. The liability is established based on independent actuarial studies that consider the City's past loss experience and current trends.

In addition, health insurance coverage similar to that available to other City employees is available to retirees at their own expense.

City of Manchester, New Hampshire
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1. Summary of Significant Accounting Policies (continued)

M. Advances / Non-current Receivables

Advances/non-current receivables to and advances from governmental funds represent non-concurrent portions of receivables and payables. The governmental fund making the advance/non-current receivables establishes a fund balance reserve equal to the amount of the advance. The General Fund and Capital Projects Fund, both governmental funds, have made such advances to the Aggregation Fund and the Manchester Housing and Redevelopment Authority concerning the Civic Center, respectively.

N. Revenue Stabilization

Per City Ordinance, Section 35.084, a revenue stabilization reserve account was established in the General Fund. At the close of each fiscal year, one-half of any General Fund operating surplus shall be transferred by the Finance Officer to a special nonlapsing revenue stabilization reserve account.

In the event of a General Fund operating deficit at the close of any fiscal year, the Finance Officer shall notify the BMA of such deficit and request that sufficient funds, to the extent available, be transferred from the revenue stabilization reserve account to eliminate such deficit. Such a transfer shall be requested only when both of the following conditions have been met:

- (i) A General Fund operating deficit occurred for the most recently completed fiscal year; and
- (ii) Unrestricted General Fund revenues in the most recently completed fiscal year were less than the budget forecast.

The amount of said transfer requested shall not exceed a sum equal to the lower of the amount of the deficit in subparagraph (i) or the revenue shortfall in subparagraph (ii). Upon receipt of approval from the BMA, the Finance Officer shall immediately transfer the sums so approved to the General Fund undesignated fund balance.

No available balance in the revenue stabilization reserve account shall be utilized for any purpose other than those authorized above, and without the specific approval of two-thirds of the aldermen elect.

If, after all the requirements have been met and the balance in the revenue stabilization reserve account is in excess of an amount equal to 5 percent of the actual General Fund and School District, operating expenditures for the most recently completed fiscal year, then such excess shall be transferred, without further action, to the General Fund unrestricted fund balance.

O. Capital Contributions

The Government Accounting Standards Board, (GASB) issued Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions" which established accounting and financial reporting transactions involving financial or capital resources. Prior to July 1, 2000, accounting principles generally accepted in the United States of America allowed enterprise funds to increase equity directly with no effect on the statement of revenue and expenses for contributed capital. Subsequent to July 1, 2000, enterprise funds must account for capital contributions through the statement of revenue and expenses.

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

1. Summary of Significant Accounting Policies (continued)

P. Interfund Transactions

During the course of operations, numerous transactions occur between individual funds including expenditures and transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers, which are included in the results of operations of both governmental and proprietary funds. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

Q. Long-Term Debt

The City reports long-term debt of governmental funds in the General Long-term Debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the General Long-term Debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds for proprietary funds, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method for issuance and the effective interest method for premiums and discounts. Bond payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

R. Investment Income

Income earned on investments in the Capital Projects Fund and most special revenue funds is recorded as income of the General Fund.

S. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance as they do not constitute expenditures or liabilities.

T. Total (“Memorandum Only”) Columns

Total columns on the combined financial statements captioned “Memorandum Only” have been added to certain statements for the primary government and the reporting entity. The total columns include interfund activity and are not comparable to consolidated financial statements, but are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. The primary government includes the blended component units and all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate from the City. The reporting entity includes the primary government and its component units.

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

1. Summary of Significant Accounting Policies (continued)

U. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the report period. Actual results could differ from those estimates.

V. Land Held for Resale

The City holds property for resale. The carrying value of this property includes the purchased price plus the cost of any improvements. When the property is sold the cost of the portion sold is charged to expenditure.

W. Fund Equity

Fund Balances of governmental fund type, expendable and pension trust funds are classified in three separate categories. The three categories, and their general meanings, are as follows:

Reserved fund balance - indicates that portion of fund equity which has been legally segregated for specific purposes.

Designated fund balance - indicates that portion of fund equity for which the City has made tentative plans.

Undesignated and unreserved fund balance - indicates that portion of fund equity which is available for appropriation and expenditure in future periods.

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City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

2. Stewardship, Compliance and Accountability

A. Budgets and Budgetary Accounting

Pursuant to the City's Charter, Section 6.01, the City adopts an annual budget for all General Fund functions and certain enterprise functions (the Water Works enterprise fund operates on a nonappropriated budgetary basis). The legal level of budgetary control is the department level. The special revenue and capital project funds are appropriated through a five-year capital improvement plan.

All portions of the annual City budget and the MSD budget are prepared under the direction of the Mayor. The Mayor establishes the procedures applicable to the preparation and adoption of the annual budget. Budgets include all proposed expenditures and the proposed use of all anticipated revenues. All departments, agencies, and officers submit detailed statements of departmental budget requests to the Mayor per established procedures.

The Mayor develops budget recommendations on appropriations and revenues and submits the recommendations to the BMA on or before the last day of March of each year. Departmental appropriations are made on a bottom-line basis. Benefits and non-departmental items are appropriated apart from the departmental budgets.

The Finance Committee of the BMA reviews the proposed budget recommendations presented by the Mayor. The BMA may increase, reduce or reject any item in the budget submitted by the Mayor. A public hearing is required to be conducted. A majority vote of the BMA is required to adopt the budget appropriation resolutions and is to be completed not later than the second Tuesday in June. The Mayor has line item veto authority.

If the BMA fail to adopt appropriation resolutions, the budget, as originally submitted by the Mayor, shall become the budget.

If during the fiscal year the Mayor certifies, after consultation with and verification by the Finance Officer, that there are available for appropriation revenues in excess of those estimated in the budget, the BMA may make supplemental appropriations for the year up to the amount of such excess, after observing the budget procedures set forth in section 6.04 of the City Charter. There were no additional appropriations during the year.

If at any time during the fiscal year it appears probable to the Mayor, after consultation with and verification by the Finance Officer, that the revenues or fund balances available will be insufficient to finance the expenditures for which appropriations have been authorized, the Mayor shall report to the BMA without delay, indicating the estimated amount of the deficit, any remedial action taken by the Mayor and recommendations as to any other steps to be taken. The BMA shall then take such further action as it deems necessary to prevent or reduce any deficit and for that purpose it may reduce one or more appropriations.

The legal level of control for budgetary is established by object categories within the departmental budgets. Departmental budget transfers from one object category to another must be approved by the Finance Officer prior to approval of the BMA. The Finance Officer is responsible for establishing controls related to the management and monitoring of the budget to prevent expenditures from exceeding budgeted appropriations.

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

2. Stewardship, Compliance and Accountability (continued)

Encumbrance accounting is employed in governmental funds. On the GAAP basis, encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The City employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statements of Revenues and Expenditures - Budgetary Basis, presents the "actual" results to provide a comparison with the budgets.

The major differences between the budgetary basis and the GAAP basis are:

- (a) Tax revenues are recorded when invoiced (budgetary), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and contracts (encumbrances) issued for goods or services not received at year end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no firm liability exists.

B. Budget/GAAP Reconciliation

Reconciliation of the reported revenues and expenditures of the general fund between the budgetary basis and the GAAP basis are presented below:

	<u>Revenues</u>	<u>Expenditures</u>
Statement of revenues and expenditures and changes in fund balance - budgetary basis	\$ 96,919,349	\$ 91,680,203
Current year encumbrances		(1,003,139)
State retirement contributions	610,070	610,070
Tax revenues of 2000 recognized in 2001	2,292,542	
Tax revenues of 2001 deferred until 2002	(1,517,671)	
Expenditures of prior year encumbrances		984,310
Statement of revenues, expenditures and changes in fund balances (in conformity with GAAP)	<u>\$ 98,304,290</u>	<u>\$ 92,271,444</u>

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

3. Cash, Cash Equivalents and Investments

Primary Government

Cash and cash equivalents consist of the following types of accounts at June 30, 2001.

Restricted Deposits	\$ 7,914,223
Deposits	5,000,964
(1) Repurchase Agreements	53,858,230
(1) Money Market / Index Funds	35,243,561
(1) NH - PDIP Unclassified	30,453,400
(1) MDC - Vanguard	65,579
	<u>\$ 132,535,957</u>

(1) See categorization under investments

The City pools substantially all cash, except for separate cash accounts, which are maintained in accordance with legal restrictions.

Written contracts relative to third party holders of collateral or establishing each party's rights with regard to repurchase agreements are entered into by the City. Banks through which repurchase notes are written maintain their collateral in an investment book entry account with the Federal Reserve. For certain contracts collateral is separate from the bank's assets, while for other contracts it is not separate. Repurchase agreements are entered into only with financial institutions; no brokers or dealers are involved in these transactions. The following tables present collateral information for the City's deposits for all funds.

Category A: Fully insured or collateralized with securities held by the City or its agent in the City's name.

Category B: Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category C: Uncollateralized

	Category			Total Bank	Carrying
	A	B	C	Balance	Amount
Pooled Deposits					
Demand deposits	\$ 10,167,048		\$ 9,570	\$ 10,176,618	\$ 5,000,964
Restricted Deposits	7,881,146		33,077	7,914,223	7,914,223
Total Deposits	<u>\$ 18,048,194</u>	<u>\$ -</u>	<u>\$ 42,647</u>	<u>\$ 18,090,841</u>	<u>\$ 12,915,187</u>

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

3. Cash, Cash Equivalents and Investments (continued)

In accordance with GASB Statement 3, investments are classified as to risk by the three categories described below:

- Category 1: Insured or registered in the City's name, or securities held by the City or its agent in the City's name.
- Category 2: Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the City's name.
- Category 3: Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the City's name.

	Category			Carry and Fair Value
	1	2	3	
Investments				
US Treasury Notes		\$ 1,656,645		\$ 1,656,645
US Government Securities			\$ 14,560,880	14,560,880
Corporate Bonds			584,461	584,461
Common Stocks			1,459,458	1,459,458
Equity Funds (1)				683,262
Sub-Total	-	1,656,645	16,604,799	18,944,706
Restricted Investments		10,942,545		10,942,545
Total Investments	\$ -	\$ 12,599,190	\$ 16,604,799	\$ 29,887,251
Cash Equivalents				
Repurchase Agreements		\$ 53,858,230		\$ 53,858,230
Non-Categorized Items				
Index Funds				35,243,561
NH - PDIP Unclassified				30,453,400
MDC - Vanguard				65,579
Total Cash Equivalents	\$ -	\$ 53,858,230	\$ -	\$ 119,620,770
Grand Total	\$ -	\$ 66,457,420	\$ 16,604,799	\$ 149,508,021

- (1) Funds are not subject to cash classification because specific securities related to the City cannot be identified.

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

3. Cash, Cash Equivalents and Investments (continued)

Component Units

The following tables categorize the cash and cash equivalents, and investments of the City's component units.

	<u>Total Bank Balance</u>	<u>Carrying and Fair Value</u>
<u>Manchester School District</u>		
Demand deposits *	\$ 11,437,150	\$ 11,149,343
Total	<u>\$ 11,437,150</u>	<u>\$ 11,149,343</u>
<u>Manchester Transit Authority</u>		
Demand deposits *	\$ 107,561	\$ 1,245,129
Repurchase Agreements **	1,030,543	
Total	<u>\$ 1,138,104</u>	<u>\$ 1,245,129</u>
<u>Contributory Retirement System</u>		
Equity funds (1)		\$ 77,656,483
Fixed Income ***		12,210,529
Emerging Market Funds (1)		1,729,292
CBM Inc. ***		860,300
Cash & Equivalents *		804,961
Total at December 31, 2000		<u>\$ 93,261,565</u>

* Amounts are collateralized as Category A as defined above.

** Amounts are classified as Category 2 as defined above.

*** Amounts are recorded at fair value and applicable investments are categorized in Category 3 as defined above.

(1) Funds are not subject to cash classification because specific securities related to the City cannot be identified.

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

4. Taxes and Abatements

The principle tax of the City is the tax on real property. The State has no cap or limit as to the rate or amount of tax a municipality may raise. The municipality's annual property tax rate is established by the Commissioner of the Department of Revenue Administration of the State, based on reports filed with the State. A single tax is levied for general, county and school purposes. The "assessment year" for taxing purposes runs from April 1 to March 31 of the following year.

The City bills and collects its property taxes in two installments. The levy dates are June 1 and November 1 and the due dates for these semi-annual tax billings are July 1 and December 1. Property taxes are recorded as a receivable when billed, net of estimated allowance for abatements. Property tax revenues have been recorded using the modified accrual basis of accounting as described in Note 1.

Real property (land and buildings) is subject to a lien for the taxes assessed upon it (subject to any paramount federal lien and subject to bankruptcy and insolvency laws). The City places a lien on delinquent property taxes prior to May 1 of the following assessment year. From the date of the tax lien, a two-year period of redemption is allowed the owner, during which time payment of taxes, interest and costs will be accepted and the lien released.

Interest accrues on delinquent taxes at a rate of 12 percent per annum from the due date to the date of payment. During the redemption period, 18 percent interest per annum is charged. Beyond the two-year period of redemption the City has the right to foreclose on properties for which taxes have not been paid. Properties are deeded to the City unless either the lien has been sold by the City, or the City has notified the tax collector that it will not accept the deed because acceptance could result in liability under environmental statutes imposing strict liability on owners. Except for any paramount federal lien and subject to bankruptcy and insolvency laws, tax liens take precedence over all other liens, and tax collector's deeds are free and clear of all encumbrances.

In December 1997, the New Hampshire Supreme Court declared that the property tax to fund education is a State tax, and therefore must be administered in a manner that is equal in valuation and uniform in rate throughout the State.

Chapter 17 of the Laws of 1999 became effective in 1999. The law includes a definition of "adequate education" for New Hampshire schools and establishes an "Education Trust Fund" and a formula for providing state financial assistance to local school districts.

The primary means of State funding for the Education Trust fund is a uniform statewide property tax under which some of the levies from more prosperous ("property rich" or "donor") communities will be collected by the State and redistributed to less affluent ("property poor" or "recipient") school districts. The law established a uniform tax rate of \$6.60 per thousand of total equalized value (not including utility property or local exemptions). The new state aid property tax is assessed and collected in virtually the same manner in which property taxes have been administered in the past with one primary exception, donor communities will be required to send amounts in excess of what is required locally for an adequate education to the State for redistribution to recipient districts. The MSD is a recipient district.

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

5. Receivables

Primary Government

General fund receivables at June 30, 2001, consisted of the following:

Due from Warrants	\$ 13,539,581
Due from State of New Hampshire	2,432,784
Prior year tax liens	801,498
Tax titles	1,726,117
Other	1,206,231
	<u>\$ 19,706,211</u>

Special Revenue Fund receivables consisted of amounts due from state and federal agencies for various grant programs.

Enterprise funds

Enterprise fund receivables at June 30, 2001, consisted of the following:

Due from federal government under reimbursement type grants	\$ 3,857,271
Due from State of New Hampshire and other governmental entities	8,233,584
Accounts receivable-trade	4,245,732
Other	2,846,435
	<u>\$ 19,183,022</u>

The receivables from the State of New Hampshire and other governmental entities represent their contractual commitment to reimburse the City for the repayment of debt incurred to build its wastewater treatment and related facilities.

Component Units

Component Units receivables at June 30, 2001, consisted of the following:

	<u>MSD</u>	<u>MTA</u>
Accounts receivable - Charges for Services	\$ 3,338,302	\$ 225,476
Other	-	602,564
	<u>\$ 3,338,302</u>	<u>\$ 828,040</u>

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

6. Interfund Receivables and Payables

Due from/to other funds consist of the following at June 30, 2001:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Agency	\$ 1,181,107
	Special Revenue:	
	CDBG	107,953
	Other grants	38,788
	Capital Projects	2,519,254
	Non-Expendable Trust-Cemetery	340,850
	Expendable Trust-Old Pension System	877,074
	Aggregation advances	<u>1,721,117</u>
		6,786,143
Special Revenue:		
Other grants	Expendable Trust	66,000
Water Works	Expendable Trust	<u>365,316</u>
	Total - All Funds	<u><u>\$ 7,217,459</u></u>

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City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

7. Property and Equipment

Primary Government

Changes in the General Fixed Assets account group for the year ended June 30, 2001, were as follows:

	Balance 30-Jun-00	Additions	Retirements	Transfers	Balance 30-Jun-01
Land	\$ 15,043,050		\$ (569)		\$ 15,042,481
Buildings	106,658,913	\$ 47,467	(18,659,508)	\$ 14,380,969	102,427,841
Improvements other than buildings	8,167,088				8,167,088
Equipment	4,853,947	154,307	(21,056)		4,987,198
Vehicles	14,158,754	666,431	(270,100)		14,555,085
Construction-in-Progress	24,588,220	3,214,318		(14,380,969)	13,421,569
Total General Fixed Assets	<u>\$ 173,469,972</u>	<u>\$ 4,082,523</u>	<u>\$ (18,951,233)</u>	<u>\$ -</u>	<u>\$ 158,601,262</u>

Enterprise Fund

Property and equipment in the Enterprise Funds at June 30, 2001, consisted of the following:

Land	\$ 10,302,543
Buildings	204,354,138
Improvements other than buildings	51,224,344
Interceptors and equipment	94,264,986
Construction-in-Progress	<u>183,907,167</u>
Total Fixed Assets	544,053,178
Less accumulated depreciation	<u>(125,454,182)</u>
	<u>\$ 418,598,996</u>

Discretely Reported Component Units

Property and equipment in the Component Units at June 30, 2001, consisted of the following:

	Balance 30-Jun-00	Additions	Retirements	Balance 30-Jun-01
<u>Manchester School District</u>				
Equipment & Vehicles	<u>\$ 9,167,644</u>	<u>\$ 648,072</u>	<u>\$ (349,023)</u>	<u>\$ 9,466,693</u>
<u>Manchester Transit Authority</u>				
Land				\$ 129,109
Buildings				1,807,598
Equipment				7,056,674
Total Fixed Assets				<u>8,993,381</u>
Less accumulated depreciation				<u>(6,559,925)</u>
				<u>\$ 2,433,456</u>

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

8. General Long-Term Debt

Primary Government

The debt service requirements of the City's outstanding general obligation bonds, revenue bonds and notes payable at June 30, 2001 are as follows:

General Long-Term Debt account group:

Fiscal year	Capital Appreciation	Principal	Interest	Total
2002	\$ 921,685	\$ 16,392,562	\$ 4,752,906	\$ 22,067,153
2003	719,629	14,011,942	6,563,158	21,294,729
2004	414,226	12,760,678	6,292,429	19,467,333
2005		11,845,578	6,060,652	17,906,230
2006		8,267,149	2,732,303	10,999,452
Thereafter to Maturity		47,592,534	13,990,416	61,582,950
Total General Long-Term Debt Account Group	<u>\$ 2,055,540</u>	<u>\$ 110,870,443</u>	<u>\$ 40,391,864</u>	<u>\$ 153,317,847</u>

Enterprise funds:

Fiscal year	Principal	Interest	Total
2002	\$ 9,223,383	\$ 12,797,674	\$ 22,021,057
2003	9,479,753	12,404,146	21,883,899
2004	9,602,039	12,016,945	21,618,984
2005	9,183,584	11,610,150	20,793,734
2006	8,823,758	11,224,806	20,048,564
Thereafter to maturity	213,997,600	133,741,460	347,739,060
Debt Service Requirement	260,310,117	193,795,181	454,105,298
Less Bond Discount	(3,349,991)		(3,349,991)
Total Enterprise Funds	<u>\$ 256,960,126</u>	<u>\$ 193,795,181</u>	<u>\$ 450,755,307</u>

Interest rates for the City's outstanding bonds range from 3.80% to 8.875%. At June 30, 2001 the City's legal debt limit was \$411,368,152. Authorized, but unissued, bonds for June 30, 2001 were \$134,152,099, of which approximately \$77,222,099 was for Enterprise Funds. Authorized, unissued bonds for June 30, 2001 include \$50,000,000 for General Airport Revenue Bond - Refunding and \$22,000,000 for Pension Obligation Bonds, with the balance dedicated for various infrastructure improvements, among the most significant being the Sanitary Landfill Closure in the amount of \$12,100,000. The full faith, credit and revenue-raising powers of the City have been pledged to secure these bonds.

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

8. General Long-Term Debt (continued)

For June 30, 2001 an amount of \$5,988,117 was recorded in the General Long-term Debt account group for the accretion of interest on the capital appreciation bonds.

During the year ended June 30, 2001, the following changes occurred in long-term liabilities reported in the General Long-term Debt account group and the enterprise funds:

General Long-term Debt Account Group

	Balance 30-Jun-00	Additions/ Accretions	Reductions	Balance 30-Jun-01
Bonds payable - City	\$ 79,721,971		\$ 11,687,692	\$ 68,034,279
Bonds payable - MSD	47,672,597		4,836,433	42,836,164
Compensated absences	4,344,576	\$ 913,080		5,257,656
Insurance claims	4,980,643		303,079	4,677,564
Capital appreciation bonds	5,118,233	869,884		5,988,117
Net Pension Obligations	207,430	156,790		364,220
Landfill closure and post-closure care	19,500,176	431,728		19,931,904
	<u>\$ 161,545,626</u>	<u>\$ 2,371,482</u>	<u>\$ 16,827,204</u>	<u>\$ 147,089,904</u>
Enterprise Funds:				
General Obligation Debt	\$ 37,655,951	\$ 13,801,633	\$ 4,882,467	\$ 46,575,117
Revenue Bonds, net of unamortized Original Issue Discount	213,213,342		2,828,333	210,385,009
	<u>\$ 250,869,293</u>	<u>\$ 13,801,633</u>	<u>\$ 7,710,800</u>	<u>\$ 256,960,126</u>

The EPD Fund has five loan agreements with original principal balances amounting to \$37,658,478 with the State of New Hampshire, State Water Pollution Control Revolving Fund (SRF) program for the purpose of financing certain projects in connection with the expansion of the wastewater treatment facility and water pollution abatement project. The remaining principal due as of June 30, 2001 totaled \$30,685,134.

Additionally, several projects are currently utilizing the services of the SRF. These projects are in various stages of the construction or completion phase of the project. Four of the DES eligible projects are classified as EPD Enterprise, while the single exception, the Sanitary Landfill Closure carries a general fund genre. Total indebtedness unamortized as of June 30, 2001 is \$13,745,988, comprised of \$7,625,084 and \$6,120,904, for EPD and CSO projects, and for the Sanitary Landfill Closure, respectively.

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements. On June 30, 2001 \$2,415,000 of bonds outstanding are considered defeased.

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

8. General Long-Term Debt (continued)

Manchester Housing and Redevelopment Authority

In March 2000, the Manchester Housing and Redevelopment Authority, New Hampshire the ("MHRA") issued \$49,772,909 in revenue bonds to construct the Manchester Civic Center. The MHRA is a public body, corporate and politic, established pursuant to Chapter 203 of the New Hampshire Revised Statutes. The MHRA does not meet the definition of a component unit of the City under GASB No. 14.

For the purpose of repaying the MHRA for the cost of financing the Civic Center Project, the MHRA and the City entered into a Financial Agreement. The Financial Agreement stipulates that the Mayor will include an appropriation request in the annual budget submission to the BMA, payable from the Meals and Rooms Taxes imposed by the State and paid to the City in excess of \$454,927 in each fiscal year in an amount sufficient to pay the installment payments required. There is, however, no assurance that the BMA will appropriate such funds on an annual basis or that sufficient Meals and Rooms Taxes collected by the City will cover the debt service requirements of the MHRA Revenue Bonds. The Revenue Bonds do not represent or constitute indebtedness of the City of Manchester.

Upon completion of the Civic Center, the City which is the owner of the site, will lease back the Civic Center from the MHRA , and will be obligated to pay rent under the lease with the MHRA.

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City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

9. Equity and Other Credits

Under terms of the agreements, principal and interest are payable in annual installments commencing within a stated period subsequent to the completion of the project. The loan agreements have terms ranging from five to twenty years with interest rates ranging from 1.3% to 4.2%.

Primary Government

The changes in the governments' contributed capital and retained earnings accounts for its proprietary funds were as follows:

	Contributed Capital	Retained Earnings		Total
		Reserved	Unreserved	
Balance June 30, 2000	\$ 128,232,604	\$ 14,561,461	\$ 84,611,037	\$ 227,405,102
Net income			19,177,200	19,177,200
Transfer		4,694,581	(4,694,581)	-
Depreciation of assets funded by user contributions and grants	(5,120,188)		5,120,188	-
Balance June 30, 2001	<u>\$ 123,112,416</u>	<u>\$ 19,256,042</u>	<u>\$104,213,844</u>	<u>\$ 246,582,302</u>

In accordance with the 1992 State Guaranteed Airport Revenue Bonds and the 1998 General Airport Revenue Bond and the FAA, \$18,432,575 has been designated in the Aviation Fund. In addition, EPD and Water Works have designated \$184,858 and \$638,609 respectively for future equipment and insurance.

Component Units

The changes in the governments' contributed capital accounts and fund equity for proprietary component units were as follows:

	Contributed Capital	Fund Balance Reserved	Retained Earnings		Total
			Reserved	Unreserved	
Balance June 30, 2000	\$ 1,180,318	\$93,302,993	\$1,576,938	\$1,749,021	\$97,809,270
Net income		(268,141)	62,090	(23,688)	(229,739)
Depreciation of assets funded by user contributions and grants	(233,380)				(233,380)
Balance June 30, 2001	<u>\$ 946,938</u>	<u>\$93,034,852</u>	<u>\$1,639,028</u>	<u>\$1,725,333</u>	<u>\$97,346,151</u>

Reserved fund balance represents \$93,034,852 for employee retirement benefits and reserved retained earnings represents \$1,639,028 for bus replacements.

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

10. Employee Benefit Plans

All full-time employees of the City participate in one of the City's pension plans or the New Hampshire Retirement System ("NHRS").

City Plans

The vast majority of employees of the City participate in the City's pension plan known as the New System. Certain employees of the City participate in a prior pension plan known as the Old System. In addition, a limited number of former police and fire department employees covered by the NHRS also qualify for supplementary benefits that are administered and paid for by the City.

New System

In 1974, the City established a single-employer public employee retirement system (the "New System") to provide pension benefits to employees other than firefighters, police officers, teachers and employees previously covered under the "Old System" described below. Manchester School District administration employees are covered under this plan.

All covered employees hired after January 1, 1974 are required to participate in the New System as a condition of employment. Employees are 100% vested after five years of service. The retirement benefit is calculated at 1-1/2% of average total compensation during the highest three years of service in the last ten years of service (hereafter average compensation), multiplied by the years of service prior to January 1, 1999 plus 2% after January 1, 1999 of average compensation multiplied by the years of service after January 1, 1999. There is a minimum benefit of 50% of average compensation for employees hired prior to January 1, 1974 who complete 20 years of service and attain age 62 before retirement or have combined age and years of service over specified amounts. All eligible employees are required to contribute 2-1/2% of their salaries to the New System prior to January 1, 1999 and 3-3/4% of their salaries after January 1, 1999. If an employee leaves covered employment or dies before five years of service, accumulated employee contributions and earnings thereon at rates determined annually by the New System Board of Trustees (5%, for the periods ended June 30, 2001 and 2000) are refunded. The City is required to contribute the remaining amounts necessary to finance the benefits for its employees. Benefit provisions and contribution requirements are established by the City and may be amended only by the BMA, subject to approval of the voters of the City through referendum.

Membership in the Plan consisted of the following at December 31, 2000, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	458
Terminated vested members	71
Current employees	
Vested	687
Nonvested	440
Total Participants	<u>1,656</u>

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

10. Employee Benefit Plans (continued)

The City's plans, by policy, (i) require annual actuarial valuations, with yearly updates, and (ii) require annual City contributions based on actuarial determinations. During the year of actuarial valuation, the City has historically contributed the annual required contribution ("ARC") of the pension plan. Any difference between the ARC and the actual contribution made has been settled by the next actuarial valuation date, and thus the City has never actually had, or had need to report, a net pension obligation ("NPO").

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2000	\$ 713,685	100 %
1999	796,552	100
1998	514,216	100
1997	543,835	100
1996	504,328	100
1995	1,006,237	100

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Actuarial Accrued Liability (Surplus) (b)	Actuarial Accrued Liability (c)	Funded Ratio (a)/(c)	Covered Payroll (prior year)
12/31/00	\$ 90,144,513	\$ (3,049,404)	\$ 87,095,109	103.5 %	\$ 35,370,961
12/31/99	82,584,305	(3,263,538)	79,320,767	103.0	29,581,577
12/31/98	72,569,967	(1,494,444)	71,075,523	102.1	28,255,208
12/31/97	65,839,177	(4,296,452)	61,542,725	107.0	26,961,375
12/31/96	59,838,164	(3,121,758)	56,716,406	105.5	24,418,320
12/31/95	55,546,837	(2,973,375)	52,573,462	105.7	23,320,343

Investments are reported at fair value based on quoted market rates. Investment income is recognized as earned. Gains and losses on sales and exchange of investments are recognized on the transaction date.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	January 1, 2001
Mortality:	The 1983 Group Annuity Mortality Table
Actuarial Cost Method:	Entry Age
Investment Return:	7.5% per year compounded annually, net of expenses
Compensation Increases:	Under 35 – 5.5%; 35 to 49 – 5%; 50 and over – 4.5%
Amortization Method:	Level percentage closed
Asset Valuation Method:	5 year smoothed market
Inflation Rate:	4.5%
Remaining Amortization Period:	8 years, closed

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

10. Employee Benefit Plans (continued)

Old System

Prior to January 1, 1974, all eligible City employees participated in the Old System, a single employer contributory public employee retirement system (PERS). All employees hired before January 1, 1974 were given the option to remain in the Old System or participate in the New System. The Old System was replaced by the New System and only operates to cover the remaining participants. All employees covered under the Old System are fully vested. Benefits under the Old System are limited to retirement benefits without death benefits to survivors. The City does not fund costs of this plan on an actuarial basis. Benefits are recognized as expenditures of the General Fund on a pay-as-you-go basis. At June 30, 2001, the Old System membership consisted of:

Members currently receiving benefits	152
Active Vested Members	<u>24</u>
Total Members	<u>176</u>

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Plan Year ended June 30	Annual required contributions	Percentage contributed *
2001	\$ 2,196,055	92.6 %
2000	2,158,104	93.4
1999	2,048,811	96.8
1998	1,728,000	100.0
1997	1,713,000	100.0
1996	1,999,000	100.0

The City's annual pension cost and net pension obligation to the Plan for the current year were as follows:

Annual required contribution	\$2,196,055
Interest on net pension obligation	15,557
Adjustment to annual required contribution	<u>(20,625)</u>
Annual pension cost	2,190,987
Less contributions made	<u>(2,034,197)</u>
Increase in net pension obligation	156,790
Net pension obligation beginning of year	207,430
Net pension obligation end of year	<u><u>\$ 364,220</u></u>

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

10. Employee Benefit Plans (continued)

Three year trend information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2001	\$ 2,211,612	92.6 %	\$ 364,220
6/30/2000	2,156,650	93.4	207,430
6/30/1999	2,048,811	96.8	66,359

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) P.U.C.	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/2001	\$ -	\$ 21,262,936	\$ 21,262,936	0.00 %	\$ 1,009,090	2,107.14 %
07/01/2000	-	22,085,349	22,085,349	0.00	1,097,032	2,013.19
07/01/1999	-	22,269,566	22,269,566	0.00	1,326,886	1,678.33
07/01/1998	-	22,453,076	22,453,076	0.00	1,417,158	1,584.37
07/01/1997	N/A	N/A	N/A	N/A	N/A	N/A
07/01/1996	-	23,028,460	23,028,460	0.00	1,557,720	1,478.34

Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2001
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, closed
Remaining amortization period	17 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	7.50 %
Projected salary increases	4.50 %

NHRS Related Supplementary Benefits Plan

The City pays supplementary benefits of up to 50% of the last annual wage for any City employee who participates in the NHRS, was hired before June 30, 1972, and does not receive a pension benefit from the NHRS equal to at least 50% of the last annual wage. These costs are accounted for on a pay-as-you-go basis in the general fund.

At June 30, 2001, the membership consisted of:

Members currently receiving benefits	<u>58</u>
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New Hampshire Retirement System

The City contributes to the NHRS a cost-sharing, multiple-employer defined benefit pension plan administered by the state retirement board. The NHRS provides retirement and disability and death benefits to plan members and beneficiaries. Revised Statutes Annotated 100-A41-a of New Hampshire Law assigns the system the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The NHRS issues a publicly available financial report which can be obtained through the New Hampshire Retirement System at 4 Chennel Drive, Concord, New Hampshire 03301-8509.

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

10. Employee Benefit Plans (continued)

NHRS members are required to contribute between 3.86% and 9.30% of annual covered compensation to the pension plan. The City makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16 and ranges from 2.18% to 4.87% of covered compensation.

The City's contributions to the system, consisting of firefighters and police officers, for the year ended June 30, 2001, 2000, and 1999 were \$1,201,022, \$1,024,022, and \$1,148,295 respectively and were equal to the required contributions. The City has recognized both revenue and expenditures of \$610,070 on behalf of contributions made by the State to the NHRS.

11. Segment Information

Primary Government

The City maintains five enterprise funds: Water Works Fund, EPD Fund, Aviation Fund, Recreation Fund and the Aggregation Fund, which provide water, sewer, airport, recreational services, and energy services respectively.

	Water Works Fund	EPD Fund	Aviation Fund	Recreation Fund	Aggregation Fund	Total
Operating revenues	\$ 9,498,831	\$ 10,989,457	\$ 29,166,572	\$ 2,099,859	\$ 15,736	\$ 51,770,455
Depreciation/amortization	2,099,515	3,909,696	5,462,083	376,945	91,634	11,939,873
Operating income (loss)	385,924	951,238	9,795,246	(211,695)	(215,881)	10,704,832
Net income (loss)	1,771,382	3,951,500	13,790,871	(21,541)	(315,012)	19,177,200
Capital contributions	1,897,332	2,300,403	4,047,332	186,530	-	8,431,597
Property additions, net	1,829,652	2,566,559	34,090,679	205,328	(7,809)	38,684,409
Net working capital	70,511,624	142,960,325	311,720,036	4,159,624	293,922	529,645,531
Bonds and notes payable	8,951,455	36,344,462	210,385,009	1,199,200	80,000	256,960,126
Receivables	1,325,949	11,745,655	5,893,009	204,209	14,200	19,183,022
Total equity	59,757,652	96,648,629	88,983,298	2,731,659	(1,538,936)	246,582,302
Total assets	70,728,648	142,960,325	311,782,018	4,159,624	293,922	529,924,537
Due to other funds	-	-	-	-	1,721,117	1,721,117

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

12. Contingent Liabilities and Insurance

There are various claims and legal actions pending against the City for which no provision has been made in the financial statements. In the opinion of the City Solicitor and other City officials, liabilities arising from these claims and legal actions, if any, will not be significant.

The City has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be significant.

The City's insurance coverage consists of both self-insured programs and policies maintained with various carriers. Coverage has not been materially reduced nor have settled claims exceeded commercial coverage in any of the past three years.

Changes in the balances of claims liabilities recorded by the City during the past two years are as follows:

Fiscal Year Ended	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
2001	\$5,935,793	\$5,589,905	\$6,037,429	\$5,488,269
2000	5,559,000	6,791,793	6,455,000	5,935,793

Accident and Health

Accident and health claims are administered through a private carrier. The City is self-insured under this program. The City has recorded \$810,705 in the General Fund for claim liabilities at year end.

Property

Property insurance is maintained with a commercial insurer and provides for a deductible of \$100,000 for each claim and an overall coverage limit of \$100,000,000.

General Liability

Liability claims are administered through a private carrier. The City is self-insured under this program, except for the Aviation Fund which maintains a liability insurance policy which provides coverage generally up to \$100,000,000 for each occurrence and in the aggregate in any one annual period of insurance. State law generally limits a city's liability for an incident to \$150,000 per individual and \$500,000 per incident. \$2,077,242 was recorded in the General Long-term Debt account group for fiscal year 2001 as the City's estimated liabilities for unsettled claims.

Worker's Compensation

Worker's compensation claims are administered through a private carrier. The City is self-insured under this program for all City employees. \$2,508,988 for 2001 was recorded in the General Long-term Debt account group as the City's estimated liability for all types of claims incurred in 2001 or prior, which have not been settled.

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

12. Contingent Liabilities and Insurance (continued)

Manchester School District

The MSD self insures against claims for workers compensation and most employee health coverage. Changes in the aggregate liability for claims for the year ended June 30, 2001 are as follows:

Claim Liability, July 1, 2000	\$ 676,736
Claims incurred	8,824,252
Claims paid	<u>(8,600,742)</u>
Claim Liability, June 30, 2001	\$ <u>900,246</u>

Department of Aviation

The DA has comprehensive airport liability insurance policies with insurance companies, which provide coverage generally up to \$100,000,000 for each occurrence and in the aggregate in any one annual period of insurance. Claims are subject to a deductible of \$1,000 for each occurrence up to a maximum of \$5,000 during any one annual insurance period.

Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

Regulatory

The City was issued an Administrative Order against it by the United States Environmental Protection Agency (EPA), ordering the City to evaluate and plan for appropriate treatment of combined sewer over flows pursuant to the Federal Clean Water Act. The City believes it is in compliance with the Administrative Order and is working with Federal and State authorities in dealing with combined sewer overflows from its publicly-owned treatment works. As of June 30, 2001, there is no pending claim by the EPA or the State.

13. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations required the City to place final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stopped accepting waste, the City reports a portion of these closure and postclosure costs as an operating expense in each period based on landfill capacity used as of the balance sheet date. The \$19,931,904 reported as landfill closure and postclosure care liability at June 30, 2001 represents the cumulative amount reported to date based on use of 100 percent of the estimated capacity of the landfill. The City closed the landfill on June 28, 1996. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The City anticipates that the funding for the landfill closure costs will be provided through the issuance of general obligation bonds.

14. Fund Deficit

As of June 30, 2001, the CDBG, Capital Projects, and the Aggregation funds had fund deficits in the amounts of \$97,989, \$1,611,374, and \$1,538,936, respectively.

The City anticipates financing the deficits through future revenues.

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

15. Issued but Not Effective Accounting Pronouncements

GASB has issued several statements which will be applicable for implementation by the City. Statements No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments," No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus," and No. 38, "Certain Financial Statement Note Disclosures," will effect the City of Manchester, based on its revenues, for the fiscal year beginning July 1, 2001. These statements, summarized below, impose new standards for financial reporting. Management has not yet completed their assessment of this statement, however, it will have a material effect on the overall financial statement presentation for the City.

The new financial statement guidelines embodied in the statements are the culmination of many years of study and deliberation by the GASB.

For the first time, financial managers will be required to share their insights in a management's discussion and analysis (MD&A) that gives readers an analysis of the government's overall financial position and results of the previous year's operations.

Financial statements will be presented under a dual perspective - a government-wide perspective (new) and a fund level perspective. For the first time, the annual report will include government-wide financial statements prepared using full accrual accounting for all of the government's activities, not just those that cover costs by charging a fee for services, as was previously required. Governments will report all capital assets, including infrastructure, in a government-wide statement of net assets and will report depreciation expense, the cost of using up capital assets, in the statement of activities. Infrastructure assets will be reported, but may not be required to be depreciated under certain circumstances. The net assets of a government will be broken down into three categories: invested in capital assets, net of related debt; restricted; and unrestricted. A statement of activities will be presented in at least the same level of detail provided in the governmental fund statements; generally, expenses and program revenues by function. Program expenses will include all direct expenses; governments that allocate overhead and other indirect expenses to individual programs will show the allocation in a separate column. Special and extraordinary items will be reported separately from other revenue and expenses. This way, users will see if the government's conventional, recurring revenues and expenses balance.

Statement No. 34 requires governments to continue to present fund level financial statements with information about funds. The focus of these fund-based statements has been sharpened, however, by requiring governments to report information about their most important or major funds (those whose revenues, expenditures/expenses, assets, or liabilities are at least 10% of the total for their fund category or type (governmental or enterprise) and at least 5% of the aggregate amount for all governmental and enterprise funds), including a government's general fund. Fund-based statements for governmental activities (generally, those supported by tax revenues) will continue to report the flow of current financial resources (generally, cash and other assets that can easily be converted to cash). To help users understand and assess the relationship between fund-based and government-wide financial statements, governments will present a summary reconciliation that will show the interplay between the two types of statements.

City of Manchester, New Hampshire
Notes to General Purpose Financial Statements
June 30, 2001

15. Issued but Not Effective Accounting Pronouncements (continued)

Governments will continue to provide budgetary comparison information as required supplementary information in their annual reports. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

16. Restatement – Manchester School District

Fund balances for the Manchester School District at July 1, 2000 were restated to give a combined retroactive effect for prior period adjustments for the General Fund and Special Revenue Funds. The net effect was a decrease of \$1,439,710 in fund balances.

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